

Message Text

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ACTION NEA-10

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SUBJ: FNCB BRANCH APPLICATION IN SRI LANKA

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1. SUMMARY: FEB 5-6 VISIT TO COLOMBO BY FNCB EXECUTIVES RESULTED IN DETAILED DISCUSSION WITH GOVT OF SRI LANKA (GSL) FINANCE MINISTER, CENTRAL BANK GOVERNOR, AND OTHER SENIOR FINANCIAL AND BANKING OFFICIALS. ALTHOUGH THERE WAS NO AGREEMENT OR EXPRESSION OF SPECIFIC INTENT, FNCB EXECUTIVES HAVE TOLD US THEY CONCLUDED GSL WANTS FNCB BRANCH HERE. FNCB EXPECTS TO MAKE NEW APPLICATION IN MID-MARCH. IF PROPOSED FOREIGN INVESTMENT LAW IS PASSED (SEE SEPTEL) AND IF GSL AND US FEDERAL RESERVE BOARD APPROVE FNCB APPLICATION, BANK WOULD LIKE TO BEGIN OPERATION BEFORE END 1976. END SUMMARY.

2. ON FEB 5, FNCB VICE PRESIDENT FOR ASIAN REGION FREDERIC ROESCH (ACCOMPANIED BY OUTGOING REGIONAL VICE PRESIDENT FROM BOMBAY, JAMES COLLINS; AND HIS REPLACEMENT, LIMITED OFFICIAL USE

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ALLEN WILLIAMS), CALLED ON GSL FINANCE MINISTER

FELIX DIAS BANDARANAIKE. CALL TURNED OUT TO BE WORKING CONFERENCE INVOLVING BANDARANAIKE, FINCE MINISTRY SECRETARY LAL JAYAWARDENA, CENTRAL BANK SENIOR EXECUTIVES, CHAIRMEN OF STATE BANKS (BANK OF CEYLON AND PEOPLES) AND DIRECTOR GENERAL, EXPORT PROMOTION SECRETARIAT, DR SIVALI RATWATTE (PRIME MINISTER'S BROTHER). SAN FEB 6 THEY CALLED ON CENTRAL BANK GOVERNOR HERBERT TENNEKON. THEIR VISIT WAS REINFORCED BY COINCIDENTAL FEB 7-8 PERSONAL VISIT OF DR IRVING FRIEDMAN, DISTINGUISHED ECONOMIST AND FOREIGN AFFAIRS ADVISOR TO FNCB CHAIRMAN WRISTON. HE HAS EXTENSIVE CONTACT WITH GSL FINANCIAL OFFICIALS.

3. FNCB EXECUTIVES TOLD US FINANCE MINISTER WAS DIRECT AND CANDID CONCERNING ECONOMIC POLICY CRITERIA AND POLITICAL IMPLICATIONS OF FNCB BRANCH PROPOSAL. BANDARANAIKE SUMMARIZED GSL'S SPECIFIC INTEREST IN DEVELOPMENT BENEFITS OF PRESENCE OF EXISTING AND NEW FOREIGN BANKS, AS HE HAD FIRST ARTICULATED IN NOV 1975 BUDGET PRESENTATION (SEE REF C). CLEARLY FOR BENEFIT OF STATE BANKING EXECUTIVES PRESENT, HE SAID GSL DID NOT WANT FOREIGN BANKS COMPETING WITH STATE BANKS FOR LOCAL RETAIL BUSINESS. NOR WOULD FOREIGN BANKS BE ALLOWED TO BRANCH. ROESCH RESPONDED THAT FNCB ACCEPTS GSL'S VIEWPOINT BUT THAT FNCB DID WANT TO HAVE BANKING LICENCE WITH SAME PRIVILEGES AND GUARANTEES AS DOMESTIC AND OTHER FOREIGN BANKS. FINANCE MINISTER INDICATED THIS COULD BE WORKED OUT.

4. THERE WAS NO EXPLICIT GSL INVITATION TO FNCB TO ESTABLISH BRANCH OR FORMAL AGREEMENT OTHERWISE. TWO SIDES DID CONCLUDE THAT FNCB SHOULD SUBMIT NEW APPLICATION WHICH BANDARANAIKE INDICATED WOULD BE FAVORABLY CONSIDERED. ONE REASON FOR NEW APPLICATION IS TO AVOID POSSIBLE POLITICAL COMPLICATION OF REVIVING APPLICATION FNCB MADE BY LETTER IN SEPT, 1974 WHICH WAS BLOCKED IN MID-1975 BY FORMER FINANCE MINISTER N.M. PERERA (LSSP). HOWEVER, GSL NEVER FORMALLY NOTIFIED FNCB THAT APPLICATION WAS DENIED.

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5. MEETING WITH CENTRAL BANK GOVERNOR, WHO HAS SUPPORTED PROPOSAL ALL ALONG, WAS ALSO ENCOURAGING AND OF SIMILAR CONTENT. FINANCE MINISTRY CLEARED WITH FNCB TEAM SHORT PRESS RELEASE STATING THAT EXECUTIVES HAD CALLED ON FINANCE MINISTER. IT APPEARED IN SEVERAL PAPERS. SINCE MID-1975, FACT OF FNCB BRANCH APPLICATION HAS BEEN PUBLIC KNOWLEDGE.

6. IN FINAL CONVERSATION WITH EMBOFF, WILLIAMS SAID HE BELIEVED FINANCE MINISTER HAD, IN FACT, COME JUST SHORT OF FORMALLY INVITING FNCB TO ESTABLISH BRANCH. FROM FNCB STANDPOINT, WILLIAMS MADE CLEAR THAT BRANCH ESTABLISHMENT WILL BE ENTIRELY CONTINGENT ON A) CONTINUED POLITICAL STABILITY AND RELTATIVELY POSITIVE ECONOMIC POLICY, B) ENACTMENT OF GSL FOREIGN INVESTMENT LAW AND C) UNITED STATES FEDERAL RESERVE BOARD APPROVAL. IF THESE FACTORS ALL POSITIVE BY MID-YEAR, FNCB WOULD TRY TO HAVE MAN HERE TO OPEN BRANCH IN THIRD OR FOURTH QUARTER.

7. COMMENT: IN LONG HISTORY OF FNCB EFFORT (FIRST INTEREST WAS IN 1947, PRESENT ROUND BEGAN IN 1973), PROBABILITY FOR ACHIEVEMENT APPEARS STRONGEST AFTER THIS VISIT. STRAIGHT FORWARD APPROACH OF FINANCE MINISTER AND GOVERNOR, BOTH WITHIN STATE BANKING COMMUNITY AND WITH PUBLIC, WAS ECNOURAGING. FNCB'S CONTINUING INTEREST COUPLES NATURALLY WITH GSL'S CURRENT EFFORT TO CREATE BETTER INVESTMENT CLIMATE TO CHIEVE INCREASED PRODUCTION, EXPORT EARNINGS AND EMPLOYMENT. SINCE SEPT 1974 EXPULSION OF LSSP MINISTERS FROM COALITION, GSL HAS PROPOSED FOREIGN INVESTMENT LAW, CONTRACTED WITH AMERICAN FIRM FOR OFFSHORE OIL DRILLING, FREED RICE MARKET AND OTHERWISE MOVED IN DIRECTION OF PRAGMATIC, GROWTH-ORIENTED, ECONOMIC POLICY. FNCB BRANCH APPROVAL, HOWEVER, WOULD BE HIGH PROFILE, POLITICALLY TOUGH DECISION WHICH COULD GENERATE OPPOSITION PRIOR TO 1977 ELECTION. FNCB IS WELL AWARE OF POLTICIAL SENSITIVITIES AND, WE BELIEVE, HAS MADE BALANCED AND PERSUASIVE PRESENTATION. THUS FNCB AND GSL MUTUAL INTEREST MAY PREVAIL. WE CONTINUE BELIEVE FNCB BRANCH WOULD BE IN AMERICAN INTEREST AND WILL CONTINUE TO LIMITED OFFICIAL USE

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SUPPORT THEIR EFFORT. WHETHER OR NOT BRANCH PROPOSAL DOES SUCCEED, WE WANT AT THIS POINT TO THANK AMCONGEN BOMBAY FOR VERY USEFUL SUPPORT OVER LAST TWO YEARS IN PROVIDING RAPID, SECURE COMMUNICATION CHANNEL BETWEEN THIS EMBASSY AND FNCB BOMBAY.
VAN HOLLEN

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